

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ESCHEATED WARRANTS,
IOWA DEPARTMENT OF REVENUE AND
FINANCE, DES MOINES, IOWA**



JUNE GIBBS BROWN
Inspector General

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DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

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Mr. Eldon Sperry
Administrator
Iowa Department of Revenue and Finance
Hoover State Office Bldg., 3rd Floor
1305 East Walnut Street
Des Moines, Iowa 50319

Dear Mr. Sperry:

This report provides the results of our limited review of *Escheated Warrants* (uncashed and unclaimed checks) processed by the Iowa Department of Revenue and Finance (Department), Des Moines, Iowa. Our objective was to assess the effectiveness and efficiency of the Department's procedures for identifying, crediting, and reporting the Federal share of escheated warrants processed during the 12-month period ended June 30, 1998. Based on our review, we conclude that the Department's procedures for processing escheated warrants were adequate.

Background

Escheated warrants (uncashed and unclaimed checks) may result in credits to Federal programs. The Office of Management and Budget Circular A-87, Cost principles for State and Local Governments, provides that costs claimed by a State for Federal financial participation must be net of all applicable credits. Federal regulations (42 Code of Federal Regulations (CFR) 433.40 and 45 CFR 201.67) required states to promptly credit the Federal share of escheated warrants.

The Department was responsible for issuing warrants, aging outdated warrants, and notifying the appropriate State agency. Section 421.45 of the Code of Iowa required the Department to void warrants that have been outstanding for six months or longer. Individual State agencies were responsible for adjusting Federal accounts and reporting applicable credits to Federal agencies.

Scope of Review

The objective of our limited review was to assess the effectiveness and efficiency of Department's procedures for identifying, crediting, and reporting the Federal share of escheated warrants. Our review covered the 12-month period ended June 30, 1998. During that period, the Department processed 15,918 escheated warrants totaling \$5,781,280.

Our review of selected escheated warrants was conducted in accordance with generally accepted governmental auditing standards, except our review objectives did not require that we review or evaluate the Department's internal control structure. We relied on the internal control testing conducted by the Iowa State Auditor's office for the fiscal year ended June 30, 1998. We did obtain an understanding of the Department's methodology for identifying and processing escheated warrants. In this regard we:

- ① reviewed the Departments's written policies and procedures as they related to the identification and recording of escheated warrants.
- ② discussed major duties and responsibilities with appropriate Department's staff.
- ③ compared selected escheated warrants listed on the Department's master listing with credits amounts recorded on Federal expenditure reports.

We selected a judgmental sample of 50 escheated warrants totaling \$1,381,596 for detailed review. Twenty two of these warrants involved Federal programs administered by the Iowa Department of Human Services (IDHS). We contacted the appropriate State agencies to ascertain whether the warrants were voided and appropriate credits made to Federal accounts. We also determined whether draw-downs of Federal funds were adjusted for voided/canceled warrants.

The IDHS contracted with an outside vendor for the administration of Medicaid. Escheated warrants under this program were excluded from our review.

Our field work was performed during the period September to December 1999 at the Department's offices located in Des Moines, Iowa.

Review Results

Based on our limited review, we conclude that the Department's policies and procedures were adequate for identifying, processing, and reporting escheated warrants.

Writing and Distribution of Warrants

Agencies batched and sent payment vouchers to the Department. After a pre-audit of the vouchers, warrants were written and distributed to originating agencies. The Department used a warrant register to post expenditures to the correct agency account. Claim vouchers were filed by fiscal year and retained for ten years.

Identification and Processing of Escheated Warrants

Each month, the Department identified and voided warrants which had been outstanding for six months or longer. The Department provided each State agency a listing that show the disposition of each outdated warrant. Funds from an outdated warrant may be credited to a

currently active account, the general fund or other appropriate fund balance. No escheated warrant can be reissued unless approved in writing by the Department.

On a limited basis, we reviewed the documentation supporting 50 escheated warrant entries. We concluded that the Department's policies and procedures for processing escheated warrants were adequate.

Individuals having access to information regarding this audit report are set forth in Appendix A.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to HHS' grantees and contractors are made available if requested, to members of the press and general public to the extent information contained therein is not subjected to the exemptions in the Act which HHS chooses to exercise. (See 45 Code of Federal Regulations, part 5.)

We appreciate the consideration given to our auditors during the review. If you have any questions, please contact Mr. Joseph L. Green, Audit Manager at (515) 284-4674. To facilitate identification, please refer to the referenced Common Identification Number (CIN) in all correspondence relating to this report.

Sincerely,



Barbara A. Bennett
Regional Inspector General
for Audit Services, Region VII

Enclosure